

115TH CONGRESS  
2D SESSION

# H. R. 5236

To expand opportunities available to employee-owned business concerns through Small Business Administration loan programs, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

MARCH 8, 2018

Ms. VELÁZQUEZ introduced the following bill; which was referred to the Committee on Small Business

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## A BILL

To expand opportunities available to employee-owned business concerns through Small Business Administration loan programs, and for other purposes.

1       *Be it enacted by the Senate and House of Representa-  
2 tives of the United States of America in Congress assembled,*

**3 SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Main Street Employee  
5 Ownership Act of 2018”.

**6 SEC. 2. DEFINITIONS.**

7       In this Act—

1                         (1) the terms “Administration” and “Adminis-  
2                         trator” means the Small Business Administration  
3                         and the Administrator thereof, respectively;

4                         (2) the term “cooperative” means an entity  
5                         that is determined to be a cooperative by the Admin-  
6                         istrator;

7                         (3) the term “employee-owned business con-  
8                         cern” means—

9                                 (A) a cooperative in which employees are  
10                          eligible for membership; and

11                                 (B) a qualified employee trust;

12                         (4) the terms “qualified employee trust” and  
13                         “small business concern” have the meanings given  
14                         those terms in section 3 of the Small Business Act  
15                         (15 U.S.C. 632); and

16                         (5) the term “small business development cen-  
17                         ter” means a small business development center de-  
18                         scribed in section 21 of the Small Business Act (15  
19                         U.S.C. 648).

20 **SEC. 3. EXPANSION OF 7(a) LOANS.**

21                         (a) IN GENERAL.—Section 7(a) of the Small Busi-  
22                         ness Act (15 U.S.C. 636(a)) is amended—

23                                 (1) in paragraph (15)—

24                                         (A) in subparagraph (A)—

(i) by striking “this subsection to qualified employee trusts” and inserting “this subsection—

“(i) to qualified employee trusts”;

(ii) in clause (i), as so designated—

(I) by inserting “, and for any transaction costs associated with purchasing,” after “purchasing”;

(II) by striking the period at the end and inserting “; and”;

(iii) by adding at the end the following:

“(ii) to a small business concern under a plan approved by the Administrator, if the proceeds from the loan are only used to make a loan to a qualified employee trust, and for any transaction costs associated with making that loan, that results in the qualified employee trust owning at least 51 percent of the small business concern.”;

(B) in subparagraph (B)—

(i) in the matter preceding clause (i), by inserting “or by the small business concern” after “the trustee of such trust”;

1                             (ii) in clause (ii), by striking “and” at  
2                             the end;

3                             (iii) in clause (iii), by striking the pe-  
4                             riod at the end and inserting “, and”; and

5                             (iv) by adding at the end the fol-  
6                             lowing:

7                             “(iv) with respect to a loan made to a  
8                             trust, or to a cooperative in accordance with  
9                             paragraph (35)—

10                             “(I) a seller of the small business con-  
11                             cern may remain involved as an officer, di-  
12                             rector, or key employee of the small busi-  
13                             ness concern when a qualified employee  
14                             trust or cooperative has acquired 100 per-  
15                             cent of ownership of the small business  
16                             concern; and

17                             “(II) any seller of the small business  
18                             concern who remains as an owner of the  
19                             small business concern, regardless of the  
20                             percentage of ownership interest, may be  
21                             required to provide a personal guarantee  
22                             by the Administration.”; and

23                             (C) by adding at the end the following:

24                             “(F) A small business concern that makes a  
25                             loan to a qualified employee trust under subpara-

1 graph (A)(ii) is not required to contain the same  
2 terms and conditions as the loan made to the small  
3 business concern that is guaranteed by the Adminis-  
4 tration under such subparagraph.

5 “(G) The Administration shall not require a  
6 qualified employee trust or any member of the trust  
7 to provide a personal guarantee on a loan guaran-  
8 teed under this paragraph unless any single member  
9 of the trust has more than a 20 percent ownership  
10 share in the trust.

11 “(H) With respect to a loan made to a qualified  
12 employee trust under this paragraph, or to a cooper-  
13 ative in accordance with paragraph (35), the Admin-  
14 istrator may, as deemed appropriate, elect to not re-  
15 quire any mandatory equity to be provided by the  
16 qualified employee trust or cooperative to make the  
17 loan.”; and

18 (2) by adding at the end the following:

19 “(35) LOANS TO COOPERATIVES.—

20 “(A) DEFINITION.—In this paragraph, the  
21 term ‘cooperative’ means a corporation—

22 “(i) that is determined to be a cooper-  
23 ative by the Administrator, in accordance  
24 with applicable Federal and State laws and  
25 regulations; and

1                         “(ii) in which employees are eligible  
2                         for membership.

3                         “(B) AUTHORITY.—The Administration  
4                         shall guarantee loans made to a cooperative for  
5                         the purpose described in paragraph (15).

6                         “(C) NO GUARANTEE.—With respect to a  
7                         cooperative that is formed through a transfer of  
8                         ownership, the Administrator may, as deemed  
9                         appropriate, waive the requirement for a guar-  
10                         antee on a loan guaranteed under this para-  
11                         graph unless any single member of the coopera-  
12                         tive has more than a 20 percent ownership  
13                         share in the cooperative.”.

14                         (b) DELEGATION OF AUTHORITY TO PREFERRED  
15                         LENDERS.—Section 5(b)(7) of the Small Business Act (15  
16                         U.S.C. 634(b)(7)) is amended by inserting “, including  
17                         loans guaranteed under paragraph (15) or (35) of section  
18                         7(a)” after “deferred participation loans”.

19                         **SEC. 4. SMALL BUSINESS INVESTMENT COMPANY PRO-**  
20                         **GRAM OUTREACH.**

21                         The Administrator shall establish an outreach pro-  
22                         gram with companies licensed under section 301(c) of the  
23                         Small Business Investment Act of 1958 (15 U.S.C.  
24                         681(c)) to increase the use of funds to make investments

1 in company transitions to employee-owned business con-  
2 cerns.

3 **SEC. 5. SMALL BUSINESS MICROLOAN PROGRAM OUT-**  
4 **REACH.**

5 The Administrator shall establish an outreach pro-  
6 gram with intermediaries under section 7(m) of the Small  
7 Business Act (15 U.S.C. 636(m)) to increase the use of  
8 funds to make loans to employee-owned business concerns,  
9 including transitions to employee-owned business con-  
10 cerns.

11 **SEC. 6. SMALL BUSINESS DEVELOPMENT CENTER OUT-**  
12 **REACH AND ASSISTANCE.**

13 (a) ESTABLISHMENT.—The Administrator shall es-  
14 tablish a Small Business Employee Ownership and Co-  
15 operatives Promotion Program to offer technical assist-  
16 ance and training on the transition to employee ownership  
17 through cooperatives and qualified employee trusts.

18 (b) SMALL BUSINESS DEVELOPMENT CENTERS.—

19 (1) IN GENERAL.—In carrying out the program  
20 established under subsection (a), the Administrator  
21 shall enter into agreements with small business de-  
22 velopment centers under which the centers shall—

23 (A) provide access to information and re-  
24 sources on employee ownership through co-

1           operatives or qualified employee trusts as a  
2           business succession strategy;

3           (B) conduct training and educational ac-  
4           tivities; and

5           (C) carry out the activities described in  
6           subparagraph (U) of section 21(c)(3) of the  
7           Small Business Act (15 U.S.C. 648(c)(3)).

8           (2) ADDITIONAL SERVICES.—Section 21(c)(3)  
9           of the Small Business Act (15 U.S.C. 648(c)(3)) is  
10          amended—

11           (A) in subparagraph (S), by striking  
12          “and” at the end;

13           (B) in subparagraph (T), by striking the  
14          period at the end and inserting “; and”; and

15           (C) by adding at the end the following:

16           “(U) encouraging and assisting the provision of  
17          succession planning to small business concerns with  
18          a focus on transitioning to cooperatives, as defined  
19          in section 7(a)(35), and qualified employee trusts  
20          (collectively referred to in this subparagraph as ‘em-  
21          ployee-owned business concerns’), including by—

22           “(i) providing training to individuals to  
23          promote the successful management, govern-  
24          ance, or operation of a business purchased by

1           those individuals in the formation of an em-  
2           ployee-owned business concern;

3                 “(ii) assisting employee-owned business  
4                 concerns that meet applicable size standards es-  
5                 tablished under section 3(a) with education and  
6                 technical assistance with respect to financing  
7                 and contracting programs administered by the  
8                 Administration;

9                 “(iii) coordinating with lenders on con-  
10                 ducting outreach on financing through pro-  
11                 grams administered by the Administration that  
12                 may be used to support the transition of owner-  
13                 ship to employees;

14                 “(iv) supporting small business concerns in  
15                 exploring or assessing the possibility of  
16                 transitioning to an employee-owned business  
17                 concern; and

18                 “(v) coordinating with the cooperative de-  
19                 velopment centers of the Department of Agri-  
20                 culture, the land grant extension network, the  
21                 Manufacturing Extension Partnership, commu-  
22                 nity development financial institutions, em-  
23                 ployee ownership associations and service pro-  
24                 viders, and local, regional and national coopera-  
25                 tive associations.”.

## **1 SEC. 7. INTERAGENCY WORKING GROUP.**

2 (a) IN GENERAL.—Not later than 90 days after the  
3 date of enactment of this Act, the Administrator (or a des-  
4 ignee of the Administrator) shall coordinate and chair an  
5 interagency working group, which shall—

14 (b) MEETINGS.—The interagency working group  
15 shall meet at such times as determined necessary by the,  
16 but not less than biannually. Such meetings may occur  
17 in person or via electronic resources.

18 SEC. 8. AMENDMENT TO REPORT TO CONGRESS ON STATUS  
19 OF EMPLOYEE-OWNED FIRMS.

20       Section 7(a)(15)(E) of the Small Business Act (15  
21 U.S.C. 636(a)(15)(E)) is amended by striking “Adminis-  
22 tration.” and inserting “Administration, which shall in-  
23 clude—

“(i) the total number of loans made to employee-owned business concerns that were guaranteed by the Administrator

1                   under section 7(a) of the Small Business  
2                   Act (15 U.S.C. 636(a)) or section 502 of  
3                   the Small Business Investment Act of  
4                   1958 (15 U.S.C. 696), including the num-  
5                   ber of loans made—

6                         “(I) to small business concerns  
7                         owned and controlled by socially and  
8                         economically disadvantaged individ-  
9                         uals; and

10                         “(II) to cooperatives in which  
11                         employees are eligible for membership;  
12                         and

13                         “(ii) the total number of financings  
14                         made to employee-owned business concerns  
15                         by companies licensed under section 301(c)  
16                         of the Small Business Investment Act of  
17                         1958 (15 U.S.C. 696(c)), including the  
18                         number of financings made—

19                         “(I) to small business concerns  
20                         owned and controlled by socially and  
21                         economically disadvantaged individ-  
22                         uals; and

23                         “(II) to cooperatives in which  
24                         employees are eligible for membership;  
25                         and

1                 “(iii) any outreach and educational  
2                 activities conducted by the Administration  
3                 with respect to employee-owned business  
4                 concerns.”.

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